

SUMMIT POINTE

Community Mental Health Authority

**Financial Statements
September 30, 2005**



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Summit Pointe Comm. Mental Health Auth.	County Calhoun
Audit Date 9/30/05	Opinion Date 12/28/05	Date Accountant Report Submitted to State: 3/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting System for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury. **RECEIVED**
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

MAR 28 2006

2. We are certified public accountants registered to practice in Michigan.

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report or comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE AND COMPANY, PC			
Street Address 308 GRATIOT AVENUE	City ALMA	State MI	ZIP 48801
Accountant Signature <i>Roslund, Prestage & Company, P.C.</i>		Date 3/27/06	

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INDEPENDENT AUDITOR'S REPORT

Summit Pointe
Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Summit Pointe as of and for the year ended September 30, 2005, which collectively comprise Summit Pointe's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Summit Pointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Summit Pointe as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2005 on our consideration of Summit Pointe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages I-IX, and budgetary comparison information on pages 27-28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

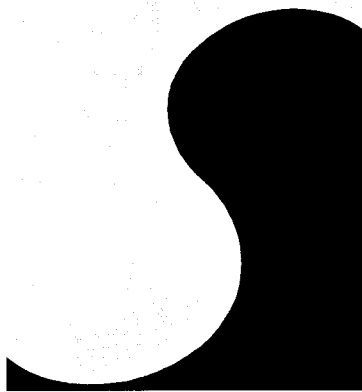
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Summit Pointe's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of Summit Pointe. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 28, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**



SUMMIT POINTE

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

Management of Calhoun County Community Mental Health Authority (CMHA), also known as Summit Pointe, presents the following discussion and analysis of financial activities during fiscal year 2004/2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify material changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Beginning October 1, 2002, the Medicaid funds for Barry, Berrien, Branch, Calhoun, and Van Buren counties were paid to Summit Pointe. Summit Pointe entered into a contract with Michigan Department of Community Health (MDCH) to administer the above Medicaid funds for behavioral health services. Summit Pointe continued to operate as Prepaid Inpatient Health Plan (PIHP) in fiscal year 2004/2005. Summit Pointe Board delegated the administration of regional Medicaid contract to Venture Administrative Board. Venture Administrative Board consists of two voting members from each of the five member counties and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITRFA).

Venture Administrative Board set up a goal to become a successful benefits manager. To achieve this goal the organization was able to ensure the following mega ends statements:

- Acceptability (plan members are satisfied with the processes and outcomes of their behavioral health care services);
- Value (the community benefits from positive gains in individual and population behavioral health);
- Accessibility (plan members requiring behavioral health services are aware of, seek and connect with the right service at the right time in the right location);
- Impact (plan members utilizing behavioral health services experience improvements in their quality of life. The focus has been on maximizing recovery and self-sufficiency);

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

- Risk Management (Venture and its five affiliates will suffer no critical consequences of any type, including but not limited to fiscal, quality, public perception or legal).

Venture underwent its first evaluation by an independent External Quality Review Organization (EQRO) to determine compliance with federal requirements for Medicaid managed care entities. EQRO audited all PIHP in Michigan. Venture had the top scores among eighteen PIHPs. Venture had an overall score of 98% compared to a state average of 84%. Several strengths were highlighted and a few areas in need of improvement were identified. The system will continue to improve those areas addressed in 2005 and prepare for new areas of review expected in 2006.

Summit Pointe continued to contract with the MDCH for the State General Fund services for priority population residing in Calhoun County. Summit Pointe also continued to provide behavioral health services to other segments of population. First and third party payors, contractual agreements and other non-MDCH sources of income accounted for 13.9% of Summit Pointe revenues as a Host Board.

FINANCIAL HIGHLIGHTS

Venture PIHP was able to achieve its financial goals in fiscal year 2004/2005. Regional Medicaid revenues exceeded expenditures by \$1.8 million. These funds will be spent on supports and services to Medicaid eligible customers in fiscal year 2006. Specialty Managed Care Services Internal Service (Risk Reserve) Fund (ISF) remained stable at \$4.3 million. The ability to fund ISF at the maximum allowable level (per the MDCH contract, 7.5% of Medicaid revenues) demonstrates prudent risk management strategy.

Summit Pointe as a Host Board posted a loss of \$319 thousand of General fund. Summit Pointe used General Fund risk reserve to cover the loss. General Fund Formula Services ISF decreased by \$319 thousand and reached \$198 thousand or 2.7% of General Fund revenues. Local funds (patient service revenues, interest income, and other) exceeded local match obligations by \$358 thousand. Local match surplus contributed to the increase of unrestricted fund balance.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) - GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to the prior years annual financial reports.

Fund financial statements are divided into two categories. These are special revenue fund financial statements and proprietary fund financial statements.

Special revenue fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

FINANCIAL POSITION

Key financial indicators of Summit Pointe are presented in Table 1.

Table 1

	Dun & Bradstreet Industry Benchmarks			
	<u>Sep-05</u>	<u>Sep-04</u>	<u>Upper Quartile</u>	<u>Median</u>
<u>Self-Sufficiency</u>				
Net Income Margin, %	4.8	2.1	5.4	2.7
Return on Assets (annualized), %	13.7	5.9	9.1	3.9
Net Income as % of Fund Balance	20.4	9.5	24.3	5.7
<u>Financial Stability</u>				
Current Assets to Current Liabilities	2.3	1.9	4.6	2.1
Total Liabilities to Fund Balance	0.50	0.60	0.27	0.7
Fixed Assets to Fund Balance	0.11	0.11	0.34	0.69
Cash Available for Fund Balance, %	56.8	71.7	N/A	N/A
<u>Efficiency</u>				
Days in Accounts Receivable	103	123	27	41
Days in Accounts Payable	18	27	5	10
Revenues to Net Working Capital	6.9	8.0	13.2	3.9
Revenues to Assets	2.9	2.8	1.9	1.5

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (upper quartile and median). Dun & Bradstreet provided benchmarks for the specialty outpatient clinics industry.

Implementation of a number of reinvestment initiatives, standardization of business and clinical practices, implementation of evidence based practices within context of uniform benefit across Venture affiliation contributed to the increase of current year operating margins. Net income margin increased by 2.7 percentage points and reached 4.8%. Our net income margin is 2.1 percentage points above the industry median. We believe that Summit Pointe will benefit from reinvestment initiatives in fiscal years 2006 and 2007. We expect long-term positive effect on cost effectiveness and efficiency of operations and quality of services.

Financial stability indicators prove that Summit Pointe has sufficient reserves and is able to meet its current and long-term obligations. Detailed analysis of changes in Fund Balance is presented in Table 2. Summit Pointe has cash and cash equivalents available to cover 56.8% of unrestricted fund balance. This ratio decreased from 71.7 % and 69.6% as of the end of September 2004 and 2003 respectively. Cash coverage of the fund balance at almost sixty percent demonstrates the agency's financial stability.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

Decrease of this ratio is temporary and reflects increase of accounts receivable from Venture affiliates. We expect this indicator to reach seventy percent level again by the end of fiscal year 2006. This expectation is based on the effective cash management.

The ratio of current assets over current liabilities (current ratio) of 2.3 is higher than that in September 2004 by 21.1%. It's 9.5% above industry median statistics. Increase of current ratio was attributable to the improved management of accounts and claims payable. Current ratio of 2.3 demonstrates our solid liquid position. Overall, the "quality" of the agency's unrestricted fund balance number remains high.

Table 2

Statement of Changes in Fund Balance

	Balance at 10/01/2004	Increase (Decrease)	Balance at 09/30/2005
Special Revenue Fund			
Reserved for Community Reinvestment	1,257,462	954,346	2,211,808
Reserved for Capital Purposes	1,634,655	(152,011)	1,482,644
Reserved for Prepaid Expenses	-	1,121,552	1,121,552
Unreserved	7,823,798	(561,549)	7,262,249
Total Special Revenue Fund	10,715,915	1,362,338	12,078,253
Internal Service Fund			
Medicaid	4,247,416	37,955	4,285,371
General Fund	512,204	(314,554)	197,650
Total Internal Service Fund	4,759,620	(276,599)	4,483,021
Grand Total Fund Balance	<u>15,475,535</u>	<u>1,085,739</u>	<u>16,561,274</u>

Increase in the fund balance restricted for community reinvestment is attributable to the transfer of Medicaid savings from Berrien County and operational efficiencies realized in fiscal year 2005. Increase in Medicaid ISF is attributable to interest income. Fund balance restricted for capital purposes decreased due to depreciation. Summit Pointe acquired \$467 thousand of capital assets in fiscal year 2005. Summit Pointe did not have long-term debt as of September 30, 2005. Acquisition of residential properties to provide affordable housing to consumers contributed to the decrease of unreserved fund balance.

The unrestricted fund balance and internal service fund represent an estimated 61 day of operations based on the actual expenses for fiscal year 2005.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

SUMMARY OF ACTIVITIES

Total revenues for the fiscal year 2005 were equal to \$70.2 million or 100.1% of the budget. Total expenditures (excluding community reinvestment) were equal to \$66.8 million or 99.3% of the budget. Excess of revenues over expenditures of \$3.4 million (excluding community reinvestment) was above the budget amount of \$2.9 million by 17.9%.

Prior year revenues comparison is presented in Table 3.

Medicaid specialty supports and services revenue represents 82.3% of total revenue and increased \$1.2 million or 2.1% compared to the prior year. A significant increase in the number of Medicaid eligible persons was the major contributing factor.

State general fund priority population revenue (formula funding) represents 9.5% of total revenue and increased by \$402 thousand or 6.4% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide the supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There was no lapse of state general funds to MDCH in the current fiscal year. Increase in General fund revenues was offset by decrease in Adult Benefit Waiver revenues – new program offered by the State of Michigan.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These funds represent 1.6% of total revenue and have decreased by \$261 thousand or 18.6% over the prior year. Revenue diversification remains one of our top priorities. Marketing campaign, outpatient clinic business restructuring, implementation of evidence based best clinical practices and alternative outcome based compensation system for clinicians are under way and should ensure an increase in program service revenues in fiscal year 2006. We should improve our collections efforts, billing timeliness and accuracy.

Grants and special designated revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 0.8% of total revenue and have increased \$18 thousand or 3.3% over the prior year. The moderate growth was attributable to the increase in OBRA services.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 1.0% of total revenue and have increased \$193 thousand or 39.7% over the prior year. All of the increase in this source of revenue is attributable to interest income.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

Revenues Analysis

For the years ended September 30, 2005 and 2004

Table 3

	Fiscal Year 2005		Fiscal Year 2004	
Capitation Revenue				
Medicaid	57,823,092	82.3%	56,632,218	82.2%
General Fund	6,666,387	9.5%	6,264,251	9.1%
Adult Benefit Waiver	612,870	0.9%	843,544	1.2%
MI Child	18,278	0.0%	22,751	0.0%
Total Capitation Revenue	65,120,627	92.7%	63,762,764	92.5%
Special and Designated Funds				
OBRA PASSAR Evaluations	274,267	0.4%	227,610	0.3%
MIFPI	49,285	0.1%	46,635	0.1%
HHAP/PATH Housing Assistance	42,524	0.1%	45,120	0.1%
HUD	57,387	0.1%	72,920	0.1%
Juvenile Justice	28,664	0.0%	31,800	0.0%
Child Care Consultation	69,733	0.1%	-	0.0%
Consumer Run Recovery Center	-	0.0%	73,437	0.1%
Respite-Tobacco Tax	37,228	0.1%	43,492	0.1%
Total Special and Designated Funds	559,088	0.8%	541,014	0.8%
Local Funding				
County Appropriation	265,000	0.4%	265,000	0.4%
Earned Contracts and Other Revenue				
Contract Revenue	2,392,104	3.4%	2,185,003	3.2%
Net Patient Service Revenue	1,146,412	1.6%	1,407,944	2.0%
Interest Income	412,733	0.6%	220,147	0.3%
Rent Income	62,230	0.1%	134,930	0.2%
Miscellaneous	261,051	0.4%	395,539	0.6%
Total Earned Contracts and Other Revenue	4,274,530	6.1%	4,343,563	6.3%
Total Revenue	70,219,245	100.0%	68,912,341	100.0%

Total expenditures as percent (%) of revenues are presented in Table 4. Overall, total expenditures decreased from 97.9% to 95.2% of total revenues. Significant savings were achieved in inpatient, residential, and community support services at Summit Pointe. It reflects our efforts to implement alternative service delivery models that resulted in increased customer satisfaction and decreased expenditures. Our agency is oriented for achieving best value and makes sure that the increase in cost efficiency and quality of services compliment each other. In addition, the share of Medicaid expenditures incurred at Affiliates decreased from 55.1% to 52.3% of total revenues. Medicaid medical loss ration was equal to 80.9% and remains within industry standards.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

Table 4

Expenditures Analysis

For the years ended September 30, 2005 and 2004

	Fiscal Year 2005		Fiscal Year 2004	
Total Revenues	70,219,245	100.0%	68,912,341	100.0%
Total Expenditures (Excluding Community Reinvestment)	66,839,649	95.2%	67,439,280	97.9%
Inpatient Services	1,375,378	2.0%	1,821,430	2.6%
Residential Services	4,188,711	6.0%	4,976,662	7.2%
Supportive and Other Services	3,282,189	4.7%	3,510,130	5.1%
Medicaid Supports & Services Incurred at Affiliates	36,724,673	52.3%	37,991,766	55.1%
External Healthcare Expenses, Total	45,570,951	64.9%	48,299,988	70.1%
Contract Programs	647,898	0.9%	924,206	1.3%
Client Support	3,418,667	4.9%	2,438,785	3.5%
Salaries and Fringes	6,387,130	9.1%	5,637,224	8.2%
Clinical Contracts	1,769,108	2.5%	1,699,084	2.5%
Contract Consultants	4,268,833	6.1%	4,408,281	6.4%
Community Education	367,740	0.5%	256,076	0.4%
Employee Development	673,520	1.0%	577,268	0.8%
Facilities	1,650,150	2.3%	1,462,400	2.1%
Local Funds Paid to DCH	1,110,749	1.6%	1,110,749	1.6%
General & Administrative	913,685	1.3%	527,881	0.8%
Miscellaneous	61,218	0.1%	97,338	0.1%

Personnel expense increased by 11.1% and reached \$8.2 million. Research and development expenditures decreased by 3.2%. Summit Pointe spent a little bit over \$4.2 million for these purposes. Local funds paid to DCH remained constant at \$1.1 million.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2005

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good. The need for strategies to provide medical services for Medicaid recipients more effectively is growing. The cost of operating a Medicaid program has risen significantly over the past five years, an average of 9.4% per year from 2000 to 2005.

The Federal government has expressed greater willingness to grant states more flexibility in the operation of their Medicaid programs through the "1115 waiver" process. The MDCH has undertaken the process to re-base the rates for Medicaid capitation payments. New actuarially sound capitation rates may result in increase of Medicaid revenues for Venture Affiliation if the current Medicaid enrollment trend continues. However, the on-going attempts to smooth the results of rebasing may have negative impact on financial stability of Summit Pointe and its Affiliates. Support and service demand is expected to increase together with inflationary cost pressures.

While the financial position of Summit Pointe is currently healthy, many challenges lie ahead. We understand the necessity to continue our innovative approaches to service delivery and community involvement. We will focus on implementing evidence based clinical practices, expanding natural supports for our customers, improving integration with primary care physicians, developing youth and senior prevention programs. One of the main strategic goals in fiscal year 2006 will remain continuing refinement of uniform benefit across Venture Affiliation, realization of shared efficiencies with our partners, and revenue diversification. Customers needs remain our top priority that will drive all clinical and financial decisions. Summit Pointe is committed to "Making Life Works" for its customers.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

SUMMIT POINTE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and investments - unrestricted	\$14,400,105	\$15,805,339
Accounts receivable, net	905,714	1,383,011
Due from other governmental units	1,788,102	750,973
Prepaid expenses	1,121,552	55,701
Total current assets	18,215,473	17,995,024
Noncurrent assets		
Cash and investments - restricted	4,924,441	5,204,040
Capital assets - depreciable, net	1,415,279	1,586,378
Capital assets - land	67,365	48,276
Total noncurrent assets	6,407,085	6,838,694
Total assets	24,622,558	24,833,718
Liabilities		
Current liabilities		
Accounts payable	6,573,951	6,979,083
Deferred revenue	-	96,049
Due to other governmental units	796,657	1,753,345
Accrued wages and other payroll liabilities	455,511	313,515
Accrued expenditures	235,165	216,191
Total liabilities	8,061,284	9,358,183
Net Assets		
Invested in capital assets, net of related debt	1,482,644	1,634,655
Reserved for community reinvestment	2,211,808	1,257,462
Reserved for risk management	4,483,021	4,759,620
Unrestricted	8,383,801	7,823,798
Total net assets	\$16,561,274	\$15,475,535

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	\$70,382,940	\$68,986,251	\$820,263	(\$576,426)	(\$2,325,273)
General revenues					
Transfers in from affiliated boards				1,185,612	779,587
Unrestricted investment earnings				412,733	220,147
Restricted investment earnings				42,605	28,049
Total general revenues and contributions				1,640,950	1,027,783
Change in net assets				1,064,524	(1,297,490)
Net assets - beginning of year				15,475,535	17,441,894
Prior period adjustment				21,215	(668,869)
Net assets - end of year				\$16,561,274	\$15,475,535

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

SUMMIT POINTE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Assets		
Cash And Investments - Unrestricted	\$14,400,105	\$15,805,339
Cash And Investments - Restricted	441,420	444,420
Accounts Receivable, Net	905,714	1,383,011
Due From Other Governmental Units	1,788,102	750,973
Prepaid Expenses	1,121,552	55,701
Total Assets	<u>\$18,656,893</u>	<u>\$18,439,444</u>
Liabilities		
Accounts Payable	\$6,573,951	\$6,979,083
Deferred Revenue	-	96,049
Due To Other Governmental Units	796,657	1,753,345
Accrued Wages & Other Payroll Liabilities	455,511	313,515
Accrued Expenditures	235,165	216,191
Total Liabilities	<u>8,061,284</u>	<u>9,358,183</u>
Fund Balance		
Reserved For Prepaid Expenses	1,121,552	55,701
Reserved For Community Reinvestment	2,211,808	1,257,462
Unreserved	7,262,249	7,768,098
Total Fund Balances	<u>10,595,609</u>	<u>9,081,261</u>
Total Liabilities And Fund Balances	<u>\$18,656,893</u>	<u>\$18,439,444</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds	\$10,595,609
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	4,228,462
Deduct: Accumulated depreciation	(2,745,818)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: Net assets of governmental activities accounted for in the internal service fund	4,483,021
Net assets of governmental activities	<hr/> \$16,561,274 <hr/>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

REVENUES	General Fund	
	2005	2004
State Grants		
Capitation Revenue		
Medicaid	\$57,823,092	\$56,632,217
General Fund	6,666,387	6,264,251
Adult Benefit Waiver	612,870	843,544
MI Child	18,278	22,751
Total Capitation Revenue	65,120,627	63,762,763
Consumer Run Recovery Center	-	73,437
Respite -Tobacco Tax	31,309	31,185
PAS / ARR Grant	68,567	56,903
Total State Grants	65,220,503	63,924,288
Federal Grants		
PATH/Housing Assistance	42,524	45,120
MIFPI - Wraparound	49,285	46,635
Respite Services	5,919	12,307
Juvenile Justice	28,664	31,800
HUD	57,387	72,920
Child Care Consultation	69,733	-
PAS / ARR Grant	205,700	170,707
Total Federal Grants	459,212	379,489
Contributions - Local Units		
County Funding	265,000	265,000
Total Contributions - Local Units	265,000	265,000
Earned Contracts and Other Revenue		
Other Grants	127,453	275,344
Contract Revenue	2,392,104	2,185,003
Net Patient Service Revenue	1,146,412	1,407,944
Interest Income	412,733	220,147
Rent Income	62,230	134,930
Other	133,598	120,196
Total Earned Contracts and Other Revenue	4,274,530	4,343,564
Total Revenues	70,219,245	68,912,341

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
EXPENDITURES		
Health & Welfare - Mental Health		
Inpatient	\$1,375,378	\$1,821,430
Residential	4,188,711	4,976,662
Contract Programs	647,898	924,206
Support And Other Services	4,444,063	5,037,117
Salaries and Fringes	6,387,130	5,637,224
Clinical Contracts	1,769,108	1,699,085
Client Support	3,418,667	2,438,785
Contract Consultants	4,268,833	4,408,281
Community Education	367,740	256,076
Employee Development	673,520	577,268
Facilities	873,685	1,005,911
General and Administrative	913,685	373,961
Local Funds Paid To DCH	1,110,749	1,110,749
Medicaid Supports & Services - Affiliates	38,954,078	40,037,017
Miscellaneous	61,218	97,336
Small Equipment	309,366	153,920
Capital Outlay	467,099	456,490
Total Expenditures	<u>70,230,928</u>	<u>71,011,518</u>
Excess Of Revenues Over Expenditures	(11,683)	(2,099,177)
Other Financing Sources (Uses)		
Operating Transfers In (Out) - From Affiliated Boards	1,185,612	739,186
Operating Transfers In (Out) - From Internal Service Fund	<u>319,204</u>	<u>106,943</u>
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	1,493,133	(1,253,048)
Fund Balance, October 1	9,081,261	11,003,178
Prior Period Adjustment	<u>21,215</u>	<u>(668,869)</u>
Fund Balance, September 30	<u><u>\$10,595,609</u></u>	<u><u>\$9,081,261</u></u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds	\$1,493,133
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add:	Capital outlay	467,099
Deduct:	Depreciation expense	(619,109)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add:	Interest income from governmental internal service fund	42,605
Deduct:	Transfers out to general fund - abatement	<u>(319,204)</u>

Change in net assets of governmental activities	<u><u>\$1,064,524</u></u>
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The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005 AND 2004

	<u>Internal Service Fund</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash And Cash Equivalents	\$4,483,021	\$4,739,921
Due From Other Governmental Units	<u>-</u>	<u>19,699</u>
Total Assets	<u>\$4,483,021</u>	<u>\$4,759,620</u>
Net Assets		
Restricted	<u>\$4,483,021</u>	<u>\$4,759,620</u>
Total Net Assets	<u>\$4,483,021</u>	<u>\$4,759,620</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Non-Operating Revenue		
Interest Income	\$42,605	\$28,049
Operating Transfers In (Out)		
Operating Transfers In - Affiliated Boards	-	40,401
Operating Transfers Out - Abatement	(319,204)	(106,943)
Total Operating Transfers In (Out)	(319,204)	(66,542)
Change in Net Assets	(276,599)	(38,493)
Net Assets, Beginning of Year	4,759,620	4,798,113
Net Assets, End of Year	<u>\$4,483,021</u>	<u>\$4,759,620</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Cash Flows From Operating Activities		
Payments From Other Governmental Entities	\$19,699	\$2,733,476
Internal Activity - Payments From Other Funds	-	33,101
Total Cash Flows From Operating Activities	19,699	2,766,577
Cash Flows From Investing Activities		
Interest Revenue	42,605	28,049
Cash Flows From Capital And Related Financing Activities		
Operating Transfers In	-	40,401
Operating Transfers (Out) - Abatement	(319,204)	(106,943)
Total Cash Flows From Capital And Related Financing Activities	(319,204)	(66,542)
Net Increase In Cash And Cash Equivalents	(256,900)	2,728,084
Cash And Cash Equivalents, Beginning of Year	4,739,921	2,011,837
Cash And Cash Equivalents, End of Year	<u>\$4,483,021</u>	<u>\$4,739,921</u>
Adjustment To Reconcile Net Income		
To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Governmental Units	\$19,699	\$2,733,476
Due From Other Funds	-	33,101
Net Cash Provided (Used) From Operating Activities	<u>\$19,699</u>	<u>\$2,766,577</u>
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Summit Pointe (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Calhoun who meet eligibility and other criteria. As the community mental health services provider for Calhoun County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Summit Pointe
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the full accrual basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2005 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Summit Pointe
Notes To The Financial Statements

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan, and other Community Mental Health Boards.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Summit Pointe
Notes To The Financial Statements

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment & Furnishings	3-7
Buildings & Improvements	2-10
Computers	3
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for community reinvestment, compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Summit Pointe
Notes To The Financial Statements

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority did not incur any expenditure in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash and Cash Equivalents	2005	2004
Cash		
Petty Cash	\$975	\$775
Checking, Savings, & Money Market Accounts	12,202,163	10,215,191
Mutual Funds	-	2,100,604
Certificates of Deposit	3,315,864	5,785,232
Totals	\$15,519,002	\$18,101,802

Summit Pointe
Notes To The Financial Statements

At September 30, 2005 the Authority's carrying amount of deposits was \$15,518,027 and the bank balance was \$16,044,270. The difference between the carrying amount and the bank balance is due to outstanding deposits and checks. Of this bank balance, \$506,327 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Authority's investments can be classified into three categories to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or securities held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the Authority's name.

At September 30th the investments of the Authority was as follows:

Investments	Category 1	Carrying Value	Market Value
Government Bonds	\$1,251,100	\$1,251,100	\$1,251,100
Federal Home Loan Bank Bonds	2,554,444	2,554,444	2,554,444
Totals	\$3,805,544	\$3,805,544	\$3,805,544

Interest Rate Risk. As described in Note 1, state law limits the maturity of investments in commercial paper to not more than 270 days. The Authority does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits the type of investments for which the Authority may invest its available reserves. The Authority has no investment policy that would further limit its investment choices. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of Credit Risk. The Authority places no limits on the amount they may invest in any one issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement.

Summit Pointe
Notes To The Financial Statements

Restricted Cash and Cash Equivalents

Cash has been restricted for future payment of the compensated absences liability in the amount of \$441,420. These restricted assets are held in a separate cash account with local financial institutions.

Cash and Investments in the Internal Service Fund have been restricted in the amount of \$4,483,201 for the expected future risk corridor requirements of the MDCH contract.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, clients, and others for services rendered, advance deposits, and refunds. Amounts are stated net of allowances for doubtful accounts.

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From:	2005	2004
State of Michigan - OBRA	\$67,387	\$59,217
State of Michigan - Wraparound	23,508	14,991
State of Michigan - PATH/Homeless Housing	31,481	9,893
State of Michigan - Juvenile Justice	8,858	7,129
State of Michigan - Consumer Run Recovery Ctr.	-	42,171
State of Michigan - Child Care Consultation	17,606	-
State of Michigan - DCH	638,921	95,557
State of Michigan - Respite	1,973	4,615
State of Michigan - MRS Education	-	7,587
State of Michigan HUD Grant	1,149	11,709
County of Calhoun	66,250	132,500
Other Mental Health Boards	930,969	365,604
Totals	\$1,788,102	\$750,973

Summit Pointe
Notes To The Financial Statements

Prepaid Expenses

Prepaid expenses at September 30th represent payments for the following expenses that will benefit future periods:

Prepaid Expenses	2005	2004
Insurance	\$16,853	\$50,404
Lease	1,101,110	-
Other	3,589	5,297
Totals	\$1,121,552	\$55,701

Capital Assets

Capital assets activity for the year ended September 30, 2005 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Equipment & Furnishings	\$329,158	\$136,140	-	\$465,298
Buildings & Improvements	2,331,982	33,456	-	2,365,438
Computers	1,051,947	278,414	-	1,330,361
Land	48,276	19,089	-	67,365
Sub-totals	3,761,363	467,099	-	4,228,462
Accumulated Depreciation	(2,126,709)	(619,109)	-	(2,745,818)
Totals	\$1,634,654	(\$152,010)	-	\$1,482,644

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Deferred Revenue

Deferred revenue at September 30th represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2005	2004
General Fund Carryforward	-	\$96,049
Totals	-	\$96,049

Summit Pointe
Notes To The Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2005	2004
State Of Michigan – DCH Cost Settlement	\$638,716	\$1,485,996
State and Community Inpatient	288,066	267,349
Totals	\$926,782	\$1,753,345

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Accrued Expenditures

This liability represents accrued FICA, Medicare, retirement, and unemployment expenses, related to salaries and wages payable as of September 30th, amounts withheld from employee's paychecks but not yet remitted to the appropriate governmental unit, and accrued compensated absences as follows:

Accrued Expenditure	2005	2004
Pension Payable	\$100,339	\$78,512
MESC Payable	18,796	29,806
Flexible Spending Withholding Payable	8,885	15,558
Accrued Compensated Absences Payable	97,146	87,046
Other	9,999	5,269
Totals	\$235,165	\$216,191

Compensated Absences

The Authority's policy allows employees to accumulate up to 40 hours of scheduled time off in addition to their annual accrual. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment. At September 20, 2005 the vacation pay liability was \$68,931.

Summit Pointe
Notes To The Financial Statements

The Authority's policy allows employees 48 hours of unscheduled time off per year. Employees under a union agreement may carry these hours into future years, but no more than 112 hours may be accumulated at any one time. Amounts accumulated are to be paid to an employee and recognized as an expense when time is taken. Upon termination of employment, employees are paid for their unused time on a pro-rated basis based on their years of service. At September 30, 2005 the unscheduled time off liability was \$28,216.

The amount of the compensated absences liability recognized in the general fund is equal to the amount estimated to be paid during the 90 days immediately following year-end.

Leases

Summit Pointe has entered into two operating leases for the use of two buildings. Both leases were entered into on December 1, 1996. The terms of both leases call for 240 equal monthly payments of \$16,700 and \$6,465. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005:

Year Ending September 30th	Minimum Payments
2006	\$277,980
2007	\$277,980
2008	\$277,980
2009	\$277,980

Net Assets

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund (\$4,483,021) which has been set aside to fund the net uninsured exposure of potential shortfalls of the Medicaid Specialty Supports and Services Contract and the State General Fund Contract revenues.

Net assets have also been reserved for the amount of Medicaid Savings realized from the Michigan Department of Community Health's Managed Specialty Supports and Services Contract. As of September 30, 2005, this amount was \$2,211,808 and must be used according to the Authority's reinvestment strategy in fiscal year 2006.

Summit Pointe
Notes To The Financial Statements

Prior Period Adjustments

Prior period adjustments consist of the following:

Adjustment	2005	2004
Adjustment to cost settlement – 9/30/04	\$21,215	-
Adjustment to cost settlement – 9/30/03	-	(\$668,869)
Total Increase (Decrease) To Fund Balance	\$21,215	(\$668,869)

NOTE 4. OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

Pension Plan

Plan Description

The employees of the Authority are covered under a defined contribution (401 k) retirement plan. Each employee is eligible to be a member of this plan after one year of service. The plan provides for normal retirement at age 65. Early retirement is available after age 55.

When early or normal retirement age is reached the vesting percentage automatically is 100%. The vesting percent will also become 100% if the plan terminates. If an employee leaves the job before age 65, dies, or becomes disabled, vesting will be based on the following schedule:

Years of Participation	Vested Percentage
Less than 1	0
More than 1	100

Funding Policy

Each member may direct up to \$14,000 of his or her compensation to the plan on a pre-tax basis. The maximum percentage may vary from year to year because it is based on the average of the contributions made by all employees. Salary deferrals may not be distributed to the employees before they reach age 59 1/2 except for death, disability, termination of employment, or hardship.

Summit Pointe
Notes To The Financial Statements

The Authority will contribute to the plan, on the employee's behalf, a matching contribution equal to \$.60 for each \$1.00 of salary deferrals made by the employee up to a maximum contribution for each plan year of 5% of the employee's compensation for the plan year.

The Authority has no additional liability beyond these contributions.

Risk Management

Michigan Municipal Risk Management Authority

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further described in these notes.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, The Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds The Authority's limits, all further payments for such loss are the sole obligation of The Authority. If, for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability and \$1,500,000 for vehicle physical damage.

Internal Service Fund

The Authority authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract and the State General Fund Contract within the established risk corridor. These contracts provide for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

Incurred but Not Reported Liabilities

Health claims and health claims payable include estimates of obligations for health care services that have been rendered on behalf of members for which claims have either not yet been received or processed. Claim reserves for health costs incurred but not reported are estimated using generally accepted actuarial methods and in accordance with Actuarial Standards of Practice promulgated by the Actuarial Standards Board, the committee of the American Academy of Actuaries that establishes the professional guidelines and standards for actuaries to follow.

The methodology used by Gabriel Roeder Smith & Company calculates the total reserve, which includes both the reported and unpaid claims (pending reserve) and the incurred but not reported claims (IBNR). The actuarial models used in estimating reserves consider factors such as historical data adjusted for payment patterns, cost trends, service and benefit mix, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increase or decrease in membership, seasonality, and other relevant factors.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2005

REVENUES	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final		
State Grants				
Capitation Revenue				
Medicaid	\$57,489,458	\$57,739,458	\$57,823,092	\$83,634
General Fund	6,303,545	6,603,545	6,666,387	62,842
Adult Benefit Waiver	873,709	573,709	612,870	39,161
MI Child	18,000	18,000	18,278	278
Total Capitation Revenue	64,684,712	64,934,712	65,120,627	185,915
Consumer Run Recovery Center			-	-
Respite - Tobacco Tax	12,307	12,307	31,309	19,002
PAS / ARR Grant	61,422	61,422	68,567	7,145
Total State Grants	64,758,441	65,008,441	65,220,503	212,062
Federal Grants				
PATH/Housing Assistance	49,710	49,710	42,524	(7,186)
MIFPI - Wraparound	50,000	50,000	49,285	(715)
Respite Services	5,920	5,920	5,919	(1)
Juvenile Justice	40,000	40,000	28,664	(11,336)
HUD	71,080	71,080	57,387	(13,693)
Child Care Consultation	75,000	75,000	69,733	
PAS / ARR Grant	184,265	184,265	205,700	21,435
Total Federal Grants	475,975	475,975	459,212	(16,763)
Contributions - Local Units				
County Funding	265,000	265,000	265,000	-
Total Contributions - Local Units	265,000	265,000	265,000	-
Earned Contracts and Other Revenue				
Other Grants	75,000	75,000	127,453	52,453
Contract Revenue	2,187,783	2,187,783	2,392,104	204,321
Net Patient Service Revenue	1,900,059	1,500,000	1,146,412	(353,588)
Interest Income	250,000	400,000	412,733	12,733
Rent Income	85,729	85,729	62,230	(23,499)
Other	180,190	180,190	133,598	(46,592)
Total Earned Contracts and Other Revenue	4,678,761	4,428,702	4,274,530	(154,172)
Total Revenues	70,178,177	70,178,118	70,219,245	41,127

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
EXPENDITURES				
Health & Welfare - Mental Health				
Inpatient	\$1,842,322	\$1,495,000	\$1,375,378	\$119,622
Residential	4,390,000	4,250,000	4,188,711	61,289
Contract Programs	676,552	676,000	647,898	28,102
Support and Other Services	3,323,241	4,495,000	4,444,063	50,937
Salaries and Fringes	5,853,147	6,390,000	6,387,130	2,870
Clinical Contracts	2,169,100	1,795,000	1,769,108	25,892
Client Support	2,771,188	3,435,000	3,418,667	16,333
Contract Consultants	3,583,693	4,297,000	4,268,833	28,167
Community Education	367,560	368,500	367,740	760
Employee Development	307,755	679,500	673,520	5,980
Facilities	1,040,210	885,000	873,685	11,315
General and Administrative	707,518	925,000	913,685	11,315
Local Funds Paid To DCH	1,110,749	1,110,749	1,110,749	-
Medicaid Supports And Services - Affiliates	41,775,639	39,050,000	38,954,078	95,922
Miscellaneous	26,400	65,000	61,218	3,782
Small Equipment	75,000	310,000	309,366	634
Capital Outlay	475,000	475,000	467,099	7,901
Total Expenditures	70,495,074	70,701,749	70,230,928	470,821
Excess Of Revenues Over Expenditures	(316,897)	(523,631)	(11,683)	511,948
Other Financing Sources (Uses)				
Operating Transfers In (Out) - From Affiliated Boards	818,779	1,068,779	1,185,612	116,833
Operating Transfers In (Out) - From Int. Service Fund	300,000	300,000	319,204	19,204
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	801,882	845,148	1,493,133	647,985
Fund Balance, October 1	9,081,261	9,081,261	9,081,261	-
Prior Period Adjustment	21,215	21,215	21,215	-
Fund Balance, September 30	\$9,904,358	\$9,947,624	\$10,595,609	\$647,985

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Summit Pointe
Battle Creek, Michigan

We have audited the financial statements of the governmental activities and each major fund of Summit Pointe (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated December 28, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 28, 2005



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MAR 28 2006

LOCAL AUDIT & FINANCE DIV.

MANAGEMENT LETTER

Board of Directors
Summit Pointe
Battle Creek, Michigan

In planning and performing our audit of the financial statements for Summit Pointe for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 28, 2005 on the financial statements of Summit Pointe.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 28, 2005

Summit Pointe
Management Letter

Accounts Payable

During our audit we found that the detailed accounts payable ledger did not agree with the balance in the accounts payable account shown in the financial statements.

We recommend that management perform periodic reconciliations to make certain that the detailed accounts payable list agrees with the corresponding account in the financial statements.

Bank Reconciliations

During our audit we noted that many old outstanding checks and other old uncleared reconciling items are being carried on monthly cash reconciliations. This causes additional time to be spent by personnel to reconcile the bank accounts each month.

We recommend that checks and other uncleared reconciling items that are over six months old be investigated and removed from the bank reconciliation and that the original transaction be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind.

We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

Depreciation Schedule

During our review of fixed assets we also found that the Authority does not have a computerized system in place specifically designed for fixed asset recordkeeping and for calculating depreciation.

We recommend that management consider using a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.

Summit Pointe
Management Letter

Reconcile Receivable General Ledger Balance with the Subsidiary Ledger

At September 30, 2005, the Authority's detailed accounts receivable records for the "Client Accounts Receivable" did not agree with the general ledger control accounts.

Management should determine the underlying reason for the difference and should take steps to correct current procedures as deemed necessary. In addition, management should develop procedures to ensure that differences are identified, researched, and resolved on a timely basis.

Credit Cards

During our review of five monthly credit card statements we found only one instance where all of the invoices supporting the transactions listed were attached to the statement. In the other four statements one or more of the invoices were missing. Also, each statement reviewed reflected a late payment fee as well as an over-the-limit fee.

The late fee was assessed because the payment was received by the credit card company after the due date. Payment was delayed pending the receipt of the supporting invoices.

The over-the-limit fee was assessed because the total credit extended was over the credit limit established for the account, which was caused, in part, by the late payment.

We recommend that management review its current credit card policy and procedures and make the necessary changes to assure that:

- All invoices and other supporting documentation are attached to each monthly statement.
- All statements are paid in a timely manner so as to avoid late fees.
- Once the established credit limit has been reached no additional transactions are allowed by the credit card company.

Summit Pointe
Management Letter

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan. The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.